

Considerations related to the application of IAS 29

Issues Paper

Objective of the session

- 1 The objective of the session is to provide an outline of considerations related to the application of IAS 29 *Financial Reporting in Hyperinflationary Economies* that were raised during the November 2024 IFRIC meeting, the May 2025 IASB Emerging Economies Group meeting and the upcoming July 2025 ASAF meeting.
- 2 For information purposes, the appendix also includes the May 2025 IASB tentative decisions based on the feedback to the Exposure Draft ('ED') [Translation to a Hyperinflationary Presentation Currency – Proposed amendments to IAS 21](#).

Concerns related to the application of IAS 29

- 3 For more detailed information, please see Agenda Papers 2A-2B of the [November 2024 IFRIC meeting, Agenda Paper 6](#) of the May 2025 IASB Emerging Economies Group, and Agenda Papers [4A](#) and [4B](#) of the July 2025 ASAF meeting (papers 07-02 and 07-03 of this session).
- 4 In November 2024, IFRIC received a request about applying IAS 29 to identify when an economy becomes hyperinflationary. The request asked:
 - (a) whether all indicators in paragraph 3 of IAS 29 should be considered in assessing when an economy becomes hyperinflationary, including whether to continue to consider all indicators even when one indicator in paragraph 3 has been met;
 - (b) whether IAS 29 requires the consideration of indicators other than those listed in paragraph 3 of IAS 29 when relevant; and
 - (c) whether IAS 29 requires both a subsidiary (in its financial statements) and a parent (in its consolidated financial statements) to conclude consistently on when an economy becomes hyperinflationary.
- 5 It is noteworthy that the submitter requested the IASB explore the possibility of requiring entities in hyperinflationary economies to change their functional currency to the reporting currency of the parent entity for consolidation purposes when the parent entity is operating in a non-hyperinflationary economy, for parent entities with subsidiaries operating within hyperinflationary economies.
- 6 The submitter also suggested potentially recognising IAS 29 restatements directly in equity or other comprehensive income, rather than in profit or loss. This approach would help mitigate the earnings volatility that currently arises from the combined application of IAS 29 and IAS 21.

- 7 According to the evidence gathered, stakeholders:
- (a) did not conclude that an economy becomes hyperinflationary based solely on one of the indicators listed in paragraph 3 of IAS 29;
 - (b) considered indicators other than those listed in paragraph 3 of IAS 29 when relevant; and
 - (c) did not reach different conclusions at different levels within a group when applying IFRS Accounting Standards.
- 8 As such, IFRIC concluded that the matter described in the submission does not have a widespread effect and decided not to add a standard-setting project to the work plan.
- 9 However, it was noted that most respondents observed a greater weighting being applied to the quantitative indicator (i.e. paragraph 3(e) of IAS 29 that states ‘*the cumulative inflation rate over three years is approaching, or exceeds, 100%.*’) for determining whether hyperinflation is deemed to arise.
- 10 The same feedback was echoed by the presentation in the Emerging Economies Group meeting, where additional issues were noted on the reliability and usefulness of constant purchase power accounting and on the presentation of IAS 29 restatements in consolidated financial statements when the group entity is not hyperinflationary (i.e. leading to a substantial reduction in earnings of a hyperinflationary foreign operation).
- 11 Finally, the upcoming GLASS presentation at the July 2025 ASAF meeting (i.e. paper [4B](#) mentioned above) highlights that inflation-adjusted financial statements can hinder users’ decision-making. GLASS considers that as IAS 29 is only triggered by hyperinflation, there is a gap in IFRS Accounting Standards regarding high inflation, since the financial statements lose their usefulness before hyperinflation arises. They propose a new standard for high inflation that includes a definition of high inflation, distinct from hyperinflation, and a number of additional disclosures (e.g. exposure and hedging strategies, financial position and financial performance impact).

EFRAG Secretariat analysis

- 12 Notwithstanding that the IFRIC outreach indicated that the matter described in the submission not having widespread effects, the EFRAG Secretariat considers that the notion of hyperinflation itself included in IAS 29, can pose some challenges, and a distinction between ‘hyperinflation’ and ‘very high inflation’ could be helpful, as also proposed by GLASS. More specifically, according to paragraph 2 of IAS 29¹, it is demonstrated that in hyperinflationary episodes the local currency’s value is rapidly eroded, with respect to both its domestic purchasing power and its exchange rate in comparison to foreign currencies.
- 13 In addition, the feedback received by the IASB, as well as feedback received by EFRAG on the IASB project *Translation to a Hyperinflationary Presentation Currency*, particularly from users, indicated that figures presented in a hyperinflationary currency are difficult to interpret, and entity values are distorted.

¹ ‘*In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.*’ (our emphasis)

- 14 As such, consistently with the suggestion provided in [AP4A](#) of the July 2025 ASAF meeting, it could be argued that there is a ‘hyperinflationary’ threshold whereby the currency stops working altogether as a functional currency and financial reporting should be prepared using another functional currency (and the case could be made that the currency should no longer be accepted as a presentation currency). This could be the case, e.g., when the current qualitative indicators in paragraphs 3(a) and 3(b) of IAS 29² apply.
- 15 In addition, in the inflation spectrum there could also be a lower ‘high inflation’ threshold, above which, in the EFRAG Secretariat’s view, the financial statements should be inflation adjusted. This could be, for example, when the current quantitative hyperinflation threshold is met. The EFRAG Secretariat also considers that additional disclosures as proposed by GLASS would help explain the impact of high inflation on an entity’s financial position and performance.
- 16 Overall, the EFRAG Secretariat is of the view that the concerns noted above regarding the application of IAS 29 may indeed be indicative of the need for a broad project on hyperinflation, in light of the upcoming IASB Fourth Agenda Consultation.

Question for EFRAG FR TEG - CFSS

- 17 Do you have any comments in relation to the concerns raised regarding IAS 29?

ASAF Agenda papers

- 18 In addition to this issues paper, agenda papers for this session, for background information, are:
- (a) 07-02 – ASAF Agenda Paper AP4A – Application challenges of IAS 29; and
 - (b) 07-03 – ASAF Agenda Paper AP4B – High inflation and hyperinflationary environments.

Next steps

- 19 The EFRAG Secretariat to continue monitoring the IASB discussions and potentially suggest the IASB undertake a project on hyperinflation, as part of the Fourth Agenda Consultation.

² *‘(a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;*

(b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency; ...’

Appendix: Background of the IASB project

- 20 The IFRS Interpretations Committee (IFRIC) received a submission ([AP2](#) June 2022 IFRIC meeting) about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary whose functional currency is the currency of a non-hyperinflationary economy. In the fact pattern described in the submission, the parent entity applies paragraphs 39–41 of IAS 21 to translate the results and financial position of the non-hyperinflationary subsidiary into its presentation currency.
- 21 The submission asked whether, in preparing its consolidated financial statements, the parent applies IAS 29 to restate the current year and comparative amounts presented for its non-hyperinflationary subsidiary. If the parent were to restate the current year and comparative amounts, it would express those amounts in terms of the measuring unit current at the end of the reporting period (the reporting date).
- 22 IFRIC concluded that, applying the requirements in IAS 21 and IAS 29 to the submitted fact pattern, the parent could restate or not restate the subsidiary’s results and financial position in terms of the measuring unit current at the end of the reporting period.
- 23 Additional outreach was then carried out ([AP5A](#) June 2023 IFRIC meeting), through which the issue was identified as prevalent, and diversity in the accounting treatment was observed. IFRIC decided to then refer the matter to the IASB by recommending the IASB develop a narrow-scope amendment that addresses the fact pattern described in the request and a related matter of an entity whose functional currency is the currency of a non-hyperinflationary economy but presents its financial statements in the currency of a hyperinflationary economy.
- 24 In its [December 2023](#) meeting, the IASB decided to add a maintenance project for developing narrow-scope amendments to IAS 21 to its work plan. The amendments would specify how to translate the results and financial position of an entity whose functional currency is non-hyperinflationary into a hyperinflationary presentation currency.
- 25 The IASB also tentatively decided to propose amending IAS 21 to require an entity to translate all amounts (assets, liabilities, equity items, income and expenses, including comparative amounts) at the closing rate at the date of the most recent statement of financial position if that entity:
- (a) Has a non-hyperinflationary functional currency and presents financial statements in a hyperinflationary presentation currency; or

- (b) Translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency.

May 2025 IASB staff recommendations and IASB tentative decisions

- 26 For more detailed information on the feedback received on the ED, and the IASB staff's analysis and recommendations, please see Agenda Papers 12-12C of the [May 2025 IASB meeting](#).

Project direction

- 27 The IASB tentatively decided not to include translation to a hyperinflationary presentation currency in its broader considerations around a possible project on hyperinflation.

Proposed translation method and preparing comparative information

- 28 The IASB tentatively decided to require an entity to translate amounts subject to translation, including comparative amounts, using the closing rate at the date of the most recent statement of financial position if:

- (a) the entity's functional currency is the currency of a non-hyperinflationary economy and it presents its financial statements in the currency of a hyperinflationary economy; and
- (b) the entity's presentation currency is the currency of a hyperinflationary economy and it translates the results and financial position of a foreign operation with the functional currency of a non-hyperinflationary economy.

- 29 As part of the IASB's feedback received in the ED consultation, some respondents were concerned about the cost of preparing comparative information including an entity's foreign operation when applying the proposed translation method, in particular because an entity that applies IAS 29 and translates a foreign operation would need to reperform the procedures to prepare the comparative information in its financial statements (for example by consolidation).

- 30 As such, in accordance with the IASB staff recommendation, the IASB also tentatively decided to introduce an exception for the entities described in paragraph 28(b) above if such entities also have the functional currency of a hyperinflationary economy and apply IAS 29. Such entities would instead restate the comparative information of the foreign operation by applying the same change in the general price index as they apply to other corresponding figures, in accordance with IAS 29.

Disclosure and other aspects

- 31 The IASB tentatively decided:
- (a) to require an entity that applies the proposed translation method to disclose:
 - (i) the fact that all amounts in its financial statements or the results and financial position of its foreign operations have been translated at the closing rate at the date of the most recent statement of financial position; and
 - (ii) the fact that its presentation currency has ceased to be the currency of a hyperinflationary economy, if applicable.

- (b) to require an entity to disclose summarised financial information about the foreign operations to which it applied the proposed translation method;
- (c) to require an entity that applies the exception from translating the comparative information of its foreign operation to label the comparative summarised financial information of the foreign operations to show that the entity prepared the information by applying the same change in the general price index as it applied to other corresponding figures; and
- (d) to require an entity whose presentation currency has ceased to be hyperinflationary to apply paragraph 39 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* prospectively to amounts arising after the end of its previous reporting period.

EFRAG Secretariat analysis

- 32 Overall, as expressed in EFRAG’s [Final Comment Letter](#) (‘FCL’) on the ED, the EFRAG Secretariat supports the IASB’s tentative decisions on the project. More specifically, the EFRAG Secretariat supports the newly introduced exception to restate the comparative information of the foreign operation by applying the same change in the general price index as they apply to other corresponding figures, as it would reduce preparation costs for entities, enabling them not to reperform reconsolidation to prepare comparative information. In addition, the related disclosure requirements will provide users with adequate explanations for understanding the approach taken.
- 33 In addition, EFRAG, in its FCL, had also suggested explicitly referring to ‘foreign operations’ in the proposed amendments and related disclosure requirements, to clarify that they apply to the second fact pattern as well. The EFRAG Secretariat understands that paragraph 44 of IAS 21 requires an entity to apply paragraphs 38–43 (in addition to other paragraphs) when translating the results and financial position of a foreign operation, but reiterates that additional clarity regarding the scope of the amendments would be beneficial. In this respect, the EFRAG Secretariat also appreciates the IASB staff’s consideration of clarifying the wording to improve the understanding of the scope of entities to which the new disclosure requirements would apply.
- 34 Moreover, as expressed in EFRAG’s FCL, the EFRAG Secretariat considers that the summarised financial information about an entity’s foreign operations translated applying proposed paragraph 41A (proposed paragraph 53A(b) should be specified, to give guidance to entities and ensure consistency with other IFRS Accounting Standards (e.g. paragraph B10(b) of IFRS 12³).
- 35 Lastly, on the project direction, the EFRAG Secretariat also agrees with not including this narrow-scope project to any considerations for a broader project on hyperinflation.

³ ‘summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group’s activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income.’

Next steps

- 36 June 2025: The IASB to consider the disclosure requirements for subsidiaries that apply IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, the transition requirements and the effective date, and decide whether it is satisfied that the required due process steps have been completed, so that the balloting process can start. The EFRAG Secretariat to continue monitoring the project.